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MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

HELENA, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

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PLANNING AND SERVICE COUNCIL

HELENA, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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McGladrey Hendrickson & Co.
CERTIFIED PUBLIC ACCOUNTANTS

To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined the Schedules listed in the foregoing table of contents which summarize reported financial results and cash position of the grants awarded by the United States Department of Labor and for the subgrants awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to the Montana Rural CETA-CEP Planning and Service Council, Helena, Montana, as follows:

Grant Number	Subgrant Number	CETA Title	Contract Period	Audit Period
30-9-205-10	-	II ABC	10/01/78 - 09/30/79	10/01/78 - 09/30/79
30-9-205-05	-	II ABC	04/01/79 - 09/30/79	04/01/79 - 09/30/79
30-9-210-10	9168	II ABC	10/01/78 - 09/30/79	10/01/78 - 09/30/79
30-9-210-18	9193	II ABC	10/01/78 - 09/30/79	10/01/78 - 09/30/79

The audit disclosed:

- The Grantee did not have documentation to support a cost allocation between CETA cost categories.
- Not all participants in the program were CETA eligible.
- Some OJT contractors did not have adequate documentation to support full CETA reimbursement.
- One OJT contractor did not have necessary experience to maintain adequate payroll records.
- Some participants who were receiving public assistance payments were also receiving CETA basic allowances.

Exhibit I lists $6,574 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the grant will be made by the United States Department of Labor. Exhibit I was not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the grantee for the grants and subgrants and the periods referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the periods examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND

Our audit consisted of an examination of the financial and program records related to CETA programs operated by this Grantee.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Grantee complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Grantee and the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the United States Department of Labor and the Prime Sponsor with information about the Grantee. The audit covered the period October 1, 1978 to September 30, 1979 for all grants and subgrants ended during that period.

The Grantee examined in this audit was the Montana Rural CETA-CEP Planning and Service Council. The audit covered all grants between the Grantor and the Grantee and between the Prime Sponsor and Grantee operated during the applicable periods.

We reviewed the findings and recommendations of the prior audit of this Grantee for the grant during the period October 1, 1976 to September 30, 1977. We found all recommendations had been fully implemented, partially implemented or not implemented due to disagreement with the finding. We specifically reviewed those items either partially or not implemented and to the extent they were still applicable, included the findings in our recommendations.

OPINION

Exhibit I lists $6,574 of questioned costs disclosed by our audit sampling of the Grantee's grant records for the periods referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the grant agreement will be made by the United States Department of Labor.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, the Schedules listed in the foregoing table of contents present fairly, for the dates and periods indicated on the Schedules, the financial results of operations and CETA cash position of the grants and subgrants awarded to the Montana Rural CETA-CEP Planning and Service Council in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with the CETA regulations; and Exhibit I presents fairly the costs questioned as a result of our audit.

FINDINGS AND RECOMMENDATIONS

Cost Allocation

The Grantee's accounting system necessarily requires some manual adjustments be made to allocate costs among CETA cost categories and program activities. Although the documentation supporting the alocations was generally good, the Grantee could not support a percentage allocation of staff salaries and fringe benefits. The Grantee allocated 24.1017% of staff salaries and benefits to the administration cost category and 75.8983% to services. The Coordinator for the program had used these rates since he started in the position two years ago and no support documenation was available. The correct rate for the year under audit is 26.7% for administration and 73.3% for services. Applying that rate would have increased administrative cost on Schedule B-1 by approximately $9,500 and decreased services by the same amount. While the variance noted is not material, the Grantee should attempt to keep all allocation percentages current and document the computation of the percentages.

Recommendation

The Grantee should periodically update and document the computation of allocation percentages.

Grantee Reply

Concur. (See Appendix)

Participant Eligibility

1. Four participants were determined to be ineligible. None had included all their previous income on their applications. However, for one individual, it was not clear how the annualized income figure was computed.

Recommendation

The interviewer should sign the documentation in the intake file and intake files should be reviewed for internal consistency.

Grantee Reply

Concur and request Grant Officer to allow questioned costs. (See Appendix)

2. Based on statistical sampling, the percentage of ineligible participants enrolled during the contract period may have been as high as 9.1%. This error rate is considered unacceptable.

   Recommendation

   Perform required quarterly verifications and take any necessary corrective action.

   Grantee Reply

   Quarterly verifications have been performed since the fourth quarter of fiscal year 1979, utilizing Montana Employment Security Division records and written representations from out-of-state employers. (See Appendix)

OJT Contractors

1. Several OJT contractors had been reimbursed in excess of the 50% limitation of the employees' gross pay during the contract period. For some, hourly employees had not worked the stated hours within the contract period. For two others, the employees were paid on a salary basis equivalent to an hourly rate less than that specified in the agreement. There was another OJT contractor for which the participant was already a regular employee prior to the start of the contract period. Control procedures to help prevent these problems have been implemented subsequent to much of the audit period.

   Recommendation

   Continue emphasis on reviewing contractors payroll records during monitoring visits.

   Grantee Reply

   Concur. (See Appendix)

2. As previously noted, two contractors were paying employees on a salary basis that was not the equivalent of the hourly rate stated in the OJT agreement. One was not paying the Federal minimum wage for most of the contract period. Such situations could be avoided if the necessary monthly salary is included with the hourly rate in the OJT agreement.

   Recommendation

   Include the required monthly salary along with the stated hourly rate in the OJT agreement.

   Grantee Reply

   Concur. (See Appendix)

3. Several contractors reviewed did not maintain time reports as required in the OJT agreement. These were small operations whose payroll systems would not inherently require such reports. To correct this, the Grantee should povide blank time and attendance documentation, at the start of the contract period, to be completed by the employee or employer and cer-

tified by each. The documentation should then be retained at the contractor's location. Controls would be strengthened if copies were retained by the Grantee's local office.

Recommendation

Review OJT contractors' payroll systems at the start of the contract period and provide blank documentation to employers that don't normally maintain time and attendance reports.

Grantee Reply

Concur. (See Appendix)

4. One contractor did not have the experience necessary to maintain a payroll system for even one employee. The contractor had never had a regular employee prior to the start of the contract. While it is sometimes necessary to contract with small businesses, the Grantee should ensure that such businesses will be viable OJT contractors. This can not always be predicted, but at a minimum the Grantee should perform some analysis of the contractor's situation and, if necessary, assist the contractor in establishing a payroll system.

Recommendation

Analyze the small contractor's situation and provide necessary assistance.

Grantee Reply

Concur and will attempt to recover costs from contractor. Request Grant Officer to allow questioned costs. (See Appendix)

Public Assistance Recipients

In some instances participants who were receiving basic allowances were also receiving Aid for Dependent Children. Such participants should have received incentive allowances. The participants did not accurately disclose AFDC status on their application. The Grantee should verify AFDC status with the state welfare agency. This should be done at least on a sample basis to determine rate of occurrence.

Recommendation

Verify participant AFDC status with the state welfare agency at least on a sample basis.

Grantee Reply

Concur and will attempt to recover costs from contractors. Request Grant Officer to allow questioned costs. (See Appendix)

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the systems of internal accounting and administrative control for the periods referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however, in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

EXIT CONFERENCE

An exit conference was held at Helena, Montana on August 4, 1980. Those in attendance were:

Grantee:
Robert Fuhrman, Program Coordinator
Jim Hill, Coordinator

Auditors:
Richard Burris, Manager
Norm Kolpin, Staff
William Erickson, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the audit findings.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

McGladrey Hendrickson & Co.

Billings, Montana

April 25, 1980

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

SUMMARY STATEMENT OF ACCRUED EXPENDITURES

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

U.S. Department of Labor-All Grants		All Subgrants		TOTAL	
Title II ABC		Title II ABC			
Budget	Accrued Expenditures	Budget	Accrued Expenditures	Budget	Accrued Expenditures
$ 205,510	$ 188,009	$ -	$ -	$ 205,510	$ 188,009
340,945	212,494	245,626	245,626	586,571	458,120
165,595	192,044	-	-	165,595	192,044
10,366	11,257	-	-	10,366	11,257
299,153	276,192	40,000	39,023	339,153	315,215
515,684	484,480	-	-	515,684	484,480
$ 1,537,253	$ 1,364,476	$ 285,626	$ 284,649	$ 1,822,879	$ 1,649,125

See Note to Schedules and Exhibits.

Schedule II

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

SUMMARY STATEMENT OF ACCRUED EXPENDITURES BY PROGRAM ACTIVITY

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

	U.S. Department of Labor- All Grants		All Subgrants		TOTAL	
OGRAM ACTIVITY	Budget	Accrued Expenditures	Budget	Accrued Expenditures	Budget	Accrued Expenditures
Title II ABC Classroom Training	$ 644,178	$ 486,613	$ 285,626	$ 284,649	$ 929,804	$ 771,262
On-The-Job Training	75,953	50,817	-	-	75,953	50,817
Work Experience	181,454	216,759	-	-	181,454	216,759
Services to Participants	525,668	514,106	-	-	525,668	514,106
	$ 1,427,253	$ 1,268,295	$ 285,626	$ 284,649	$ 1,712,879	$ 1,552,944
Administration Cost Pool	110,000	96,181	-	-	110,000	96,181
Totals	$ 1,537,253	$ 1,364,476	$ 285,626	$ 284,649	$ 1,822,879	$ 1,649,125

See Note to Schedules and Exhibits.

Schedule B-1

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

STATEMENT OF ACCRUED EXPENDITURES

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Subgrant Budget	Total Accrued Expenditures
Title II ABC Administration	$ 95,510	$ 91,828
Allowances	340,945	212,494
Wages	165,595	192,044
Fringe benefits	10,366	11,257
Training	299,153	276,192
Services	515,684	484,480
	$ 1,427,253	$ 1,268,295
Administration Cost Pool	110,000	96,181
Total all grants	$ 1,537,253	$ 1,364,476

See Note to Schedules and Exhibits.

Schedule C-1

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

ACCRUED EXPENDITURES BY PROGRAM ACTIVITY

FROM OCTOBER 3, 1978 TO SEPTEMBER 30, 1979

PROGRAM ACTIVITY	Total Subgrant Budget	Total Accrued Expenditures
Title II ABC		
Classroom Training	$ 644,178	$ 486,613
On-The-Job Training	75,953	50,817
Work Experience	181,454	216,759
Service to Participants	525,668	514,106
	$ 1,427,253	$ 1,268,295
Administrative Cost Pool	110,000	96,181
	$ 1,537,253	$ 1,364,476

See Note to Schedules and Exhibits.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNSEL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Amount Questioned	Supporting Exhibit
Allowances	$ 3,783	I-A
Wages	161	I-A
Fringe benefits	10	I-A
Training	2,620	I-A
Total	$ 6,574	

See Note to Schedules and Exhibits.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

1. Four participants did not meet the income limitations to qualify as economically disadvantaged. The allowances, wages, and fringe benefits paid under this subgrant are as follows:

Allowances	Wages	Fringe Benefits	Total
$ 1,366	$ -	$ -	$ 1,366
869	-	-	869
581	-	-	581
-	161	10	171
$ 2,816	$ 161	$ 10	$ 2,987

2. Three participants were receiving basic allowance payments during the same period they were receiving public assistance payments. Such participants should have received incentive allowances. The difference between the basic allowances received and the amount of incentive allowance which should have been received is questioned, as follows:

Dates Receiving Public Assistance and Allowances	Basic Allowances Received	Incentive Allowance	Difference
11/13/78 - 12/31/78	$ 511	$ 162	$ 349
02/05/79 - 03/31/79	786	240	546
06/18/79 - 06/22/79	102	30	72
			$ 967

3. Contract No. 314-9-003 had an OJT contract from 10/2/78 - 2/16/79. The participant under the contract, however, started working for the Contractor September 11, 1978. For the period prior to the start of the contract the participant worked 127 hours and received $740 gross pay, including 51 hours for the week immediately preceding the contract start date. Because the participant was already a regular employee of the Contractor and upgrading does not apply in this situation, the $2,070 of training cost for this contract is questioned.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

4. Contract No. 314-9-013 had an OJT contract from January 1, 1979 to February 22, 1979. On January 15, 1979 the Contractor changed its basis of pay from $3.00 per hour to $500 per month. The $500 per month is the equivalent to $2.88 per hour which is less than the Federal minimum wage of $2.90 per hour. The CETA reimbursement applicable to the salary which did not meet Federal minimum wage requirements, $325, is questioned.

   If the above questioned cost is resolved in favor of the Contractor, there will still be $12 questioned costs calculated as follows:

Gross Salary	50% Limit	Reimbursement	Overpayment
$ 912	$ 456	$ 468	$ 12

5. Four other OJT contractors were reimbursed in excess of the 50% limitation of gross wages. Overpayment is calculated by taking the difference of days invoiced with days worked and paid:

Contract No.	Days Invoiced	Days Worked	Excess	Daily Rate	Overpayment
9314-9-019	59	58	1	$ 18.24	$ 18
9314-9-026	57	54 5/8	2 3/8	33.52	80
*9314-9-042	43	40 1/2	2 1/2	13.00	32
*9314-9-064	2	1	1	16.00	16
	Total questioned costs				$ 146

   *Note: This represents the days short per the September 30, 1979 invoice. Both contracts continued into the next fiscal year. By reviewing the final invoice and total hours worked it was determined that the shortage was still evident at the end of the contract period.

6. Contract No. 9314-9-045 paid its OJT employee a salary of $550 per month. This corresponds to an hourly rate of $3.17 per hour. The hourly rate stated in the OJT agreement was $3.42 per hour. The difference, $.25 per hour, was applied to the number of days invoiced through September 30, 1979 to compute questioned costs of $40.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

U.S. DEPARTMENT OF LABOR - ALL GRANTS

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

7. Contract No. 9314-9-023 did pay the participant wages for the number of days invoiced, but three days applied to a period immediately prior to the contract start date. The contract started March 22, 1979, the participant began work March 19, 1979, and the three days prior to the start of the contract were included in the total 52 days invoiced. While this situation is not similar to item 3 above, the $39 for days worked outside the contract period is questioned.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

CETA SUBGRANT NO. 9168, TITLE II ABC

STATUS OF FEDERAL CASH

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

CASH ON HAND, October 1, 1978	$ -
INCREASES-	
Federal cash received	245,626
DECREASES-	
Gross disbursements	245,626
CASH ON HAND, September 30, 1979	$ -

See Note to Schedules and Exhibits.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

CETA SUBGRANT NO. 9168, TITLE II ABC

CLASSROOM TRAINING

STATEMENT OF ACCRUED EXPENDITURES

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Subgrant Budget	Total Accrued Expenditures
Allowances	$ 245,626	$ 245,626

See Note to Schedules and Exhibits.

Schedule A-3

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

CETA SUBGRANT NO. 9168, TITLE II ABC

STATUS OF FEDERAL CASH

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

CASH ON HAND, October 1, 1978	$ -
INCREASES-	
Federal cash received	40,000
DECREASES-	
Gross disbursements	37,107
CASH ON HAND, September 30, 1979	$ 2,893

See Note to Schedules and Exhibits.

MONTANA RURAL CETA-CEP

PLANNING AND SERVICE COUNCIL

CETA SUBGRANT NO. 9193, TITLE II ABC

ADULT BASIC EDUCATION

STATEMENT OF ACCRUED EXPENDITURES

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Subgrant Budget	Total Accrued Expenditures
Training	$ 40,000	$ 39,023

See Note to Schedules and Exhibits.

NOTE TO SCHEDULES AND EXHIBITS

SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

No program income was received by any of the grant or subgrant programs during the period covered by these Schedules.

APPENDIX

JOB SERVICE
Employment
Security
Division
P.O. Box 1728 • Helena, Montana 59624
Phone (406) 449-2511

September 24, 1980

Mr. Richard R. Burris, Manager
McGladrey Hendrickson and Co.
P. O. Box 2020
Billings, MT 59103

Dear Mr. Burris:

Enclosed please find one copy of the response to the CETA-CEP Audit for Federal Fiscal Year 1979 for your immediate use. Under separate cover, you will be receiving an additional 55 copies. You will find that we have addressed each finding, recommendation and questioned cost.

I appreciate your patience with regard to this response. If I can be of any further assistance, please do not hesitate to contact me.

Sincerely,

Gregg Groepper

Gregg Groepper, Assistant Deputy Administrator
for Employment Services

Enclosure
GG:dt

The following responses are given to each finding and recommendation of the audit submitted by McGladrey Hendrickson & Co.:

Cost Allocation

We agree with the findings and recommendations of the audit. The CEP Coordinator and members of the Employment Security Fiscal Unit have developed an accurate cost allocation system based on the federal cost allocation plan as suggested by the Auditors. Staff salaries and Fringe Benefits are now allocated by the Fiscal Unit of the Employment Security Division.

Should the Regional Administrator require it, the Fiscal Year 1979 final Financial Status Report will be amended to reduce services and increase administration costs in accordance with the audit.

Participant Eligibility

1. We are in agreement with the findings of the auditor. Although the Intake Form (MSES 101) indicate annualized income not in excess of poverty levels, a recent Unemployment Insurance Wage Record comparison indicates the four individuals in questions were over income. In all four cases, the applicants certified that all information on the intake form was true and correct.

   We are requesting that the Grant Officer allow these questioned costs under Section 676.88c of the Federal Register. The response to the five allowability factors in Section 676.88c is as follows:

   (1) The activity was not fraudulent and the violation did not take place with the knowledge of the recipient (The Employment Security Division), on behalf of the Rural CETA-CEP.

   (2) All participants were terminated prior to the time they were determined to be ineligible. The auditors determined the ineligibility during the audit period. All four participants had terminated prior to the beginning of the audit.

   (3) Normal eligibility determination procedures were properly followed. A CETA intake form was completed on these individuals. The intake forms were reviewed for completeness and consistency by staff other than the intake person.

   (4) The CEP Prime Sponsor is constantly updating and improving eligibility determination procedures. We currently use a Participant Family Income Statement Worksheet which is filled out by the applicant in order to better determine eligibility. However, there appears to be no solution to incomplete or inaccurate information provided by applicants concerning income sources and family income.

   (5) The questioned cost appears to be minimal (in this case $2,987). This represents less than .25 of 1% of the total accrued expenditures for Fiscal Year 1979 ($1,268,294).

2. Quarterly vertifications have been performed since the fourth quarter of Fiscal Year 1979. These verifications include a computer printout of wage records from the Unemployment Insurance records of the State Employment Security Division, for all members of the family. Out-of-state employers are contacted in writing to determine wages earned during the eligibility period.

OJT CONTRACTORS

Auditor's Recommendation #1

Continue emphasis on reviewing contractors payroll records during monitoring visits.

CEP Response

Concur. As previously mentioned in our response in the Fiscal Year 1979 audit, our staff is required to physically review employer payroll and time records on a monthly basis. During Fiscal Year 1980, the CETA manual for local offices was revised to stress this point and several letters to all local office managers were also sent out to reinforce the procedures. We are also changing our method of computing the total contract cost and monthly reimbursement for invoicing purposes from a daily unit cost to an hourly cost basis to make the monitoring and invoicing computation simpler and more accurate.

Auditor's Recommendation #2

Include the required monthly salary along with the stated hourly rate in the OJT Agreement.

CEP Response

Concur. Many contracts are already submitted in this manner, however, including the amount of the monthly salary used to compute the hourly reimbursement in all contracts should insure the salary paid equals the hourly wage in the contract. Mandatory monitoring and physical review of employer records should avoid situations such as in contract 9314-9-013 where the employer changed the basis of pay from an hourly wage to a monthly salary during the contract period.

Auditor's Recommendation #3

Review OJT contractors' payroll systems at the start of the contract period and provide blank documentation to employers that don't normally maintain time and attendance report.

CEP Response

Concur. Many of our OJT training contracts are with small employers whose systems do not normally require time and attendance reports. We have a blank form which lists the days of the month, provides space to enter hours worked each day and the training/work duties performed for just this situation. This form will be reemphasized and reissued to all local offices with instructions to provide the forms to employers as necessary to document time and attendance. Any staff OJT training conducted in Fiscal Year 1981 will include coverage of this topic.

Auditor's Recommendation #4

Analyze small contractor's situation and provide necessary assistance.

CEP Response

As previously stated, many of our OJT Training Contracts are with small and/or newly established employers. Employers with fewer than four (4) employees make up this vast majority of Montana employers. Thus it will always be necessary to contract with small employers, not only to meet our enrollment goals but also to aid economic development to the extent possible. As part of the contract negotiation process, our staff is to analyze the employers' time attendance and payroll record keeping methods to determine if their systems are adequate to document invoices. If their system is weak or nonexistant, our staff is to assist them in establishing an acceptable system. Here, again we will reemphasize these pre-contract award practices through written directives to all local offices and include this topic as part of any OJT training conducted.

In regard to Auditor's Exhibit I and I-A, these are being set up as overpayments, and attempt will be made to recover all the questioned OJT costs. It appears that one trainee provided false information regarding his employment and the employer was advised during the negotiation of the contract that he could not hire, under the contract, any person already in his employ. This particular contract represents the majority of the questioned costs.

We are requesting that the Grant Officer allow the questioned costs for all OJT under Section 676.88c of the Federal Register. The response to the five allowability factors in section 676.88c is as follows:

(1) No fraud occurred on the part of any CETA-CEP staff in any of the OJT questioned costs.

(2) In one instance, the participant was terminated from CEP-OJT and on the Employer's regular payroll prior to the discovery of his ineligibility for the program. In the remainder of the OJT cases, no ineligible participants were involved.

(3) The final invoices indicating the amounts to be reimbursed were all signed by the various employers involved. In all cases, local office representatives made personal contact with employers to determine final contract costs.

(4) The Employment Security Division has ongoing training for local office staff pertaining to OJT invoicing, as well as to insure that participants do not begin employment prior to the contract start date.

(5) The magnatude of the questioned costs in relationship to the total program costs is minimal ($2,307, compared with total costs of $1,364,476).

Public Assistance Recipients

We agree with the findings of the audit. The three individuals in question did not accurately disclose AFDC status, either on the application (MSES 101), the pay status form (MSES 200), or on the weekly pay form (MSES 201).

Again, we are requesting that the Grant Officer allow these questioned costs under Section 676.88c of the Federal Register. The response to the five allowability factors in section 676.88c is as follows:

(1) The activity did not include fraud on the part of any CETA-CEP staff. The incorrect welfare status was not provided by the participants. The recipient (Montana Rural CETA-CEP) had no knowledge of the receipt of welfare payments by the participants in question.

(2) All 3 participants were terminated prior to the time the overpayment was identified by the audit.

(3) In all cases, the participants receiving the overpayments made false statements on the intake forms and pay forms in order to receive the overpayment.

(4) The three participants in question have been identified as "overpayments". The Employment Security Division has attempted to notify the participants of the overpayment, and is currently in the process of attempting to recover the overpayment.

Additionally, the Employment Security Division has made initial contacts with the state office of Social and Rehabilitative Services to discuss the possibility of a computer cross-check to determine those CETA participants receiving public assistance payments while receiving basic allowances.

(5) The questioned cost is minimal. Total questioned costs for the 3 individuals in this item are $967.00. This represents .08 of 1% of the total expenditures for Fiscal Year 1979.